

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 OMB-01

/056 W

----- 036150

R 080132Z DEC 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 0892

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L SEOUL 9649

E.O. 11652: GDS

TAGS: PGOV PFOR EFIS ETRD WTDR KS PINT PINS

SUBJ: ARREST OF LEE HAK SOO, PRESIDENT OF KOREA WONYANG AND OTHER
COMPANIES

REFS: SEOUL 7760, SEOUL 8587

SUMMARY: THIS MESSAGE REPORTS ON THE CONSEQUENCES OF THE FALL
FROM POLITICAL GRACE OF LEE HAK SOO.

1. BEGIN UNCLASSIFIED: DECEMBER 5, 1976 MEDIA REPORTED THAT LEE
HAK SOO, PRESIDENT OF KOREA WONYANG FISHERIES CO. (121 VESSELS),
ONE OF KOREA'S TWO LARGEST DEEP SEA FISHING FIRMS, WAS ARRESTED
ON DECEMBER 4 AND TAKEN TO THE SEOUL HOUSE OF DETENTION
FOR INVESTIGATION ON CHARGES OF VIOLATING THE "ADDITIONAL PUNISH-
MENT LAW ON SPECIFIC CRIMES" FOR TAX EVASION, AS WELL AS VIOLATION
OF THE FOREIGN EXCHANGE CONTROL LAW AND SUSPICION OF FRAUD IN
REGISTERING THE OWNERSHIP OF SECURITIES. THE PROSECUTOR'S OFFICE
IMPOUNDED THE BOOKS OF FOUR OF LEE'S COMPANIES: KOREA WONYANG,
KWANG MYONG PRINTING CO., KWANG MYONG TOPPAN PRINTING CO., AND
KOREA FOOD CO. CHOHEUNG BANK HAS TAKEN KOREA WONYANG IN SOLE RECEIVER

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SHIP AND, WITH FIVE OTHER BANKS (KOREA EXCHANGE (KEB), SEOUL
AND TRUST, KOREA FIRST COMMERCIAL BANK OF KOREA, AND THE PUSAN
BANK) HAS TAKEN LEE'S OTHER INTERESTS INTO RECEIVERSHIP.

2. MEDIA REPORTS THAT ACCORDING TO THE SEOUL DISTRICT PROSECUTOR'S
OFFICE, LEE EVADED VARIOUS TAXES PAYABLE BY KOREA WONYANG, KWONG
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MYONG PRINTING, AND THE HANBUK FOUNDATION AMOUNTING TO WON 461.28

MILLION (\$951,092) FROM 1973 TO 1975. HE ALLEGEDLY MISREPRESENTED THE OWNERSHIP OF KOREA WONYANG STOCK WHEN IT WENT PUBLIC ON JUNE 27, 1973 THROUGH WHICH HE AVOIDED WON 256.64 MILLION (\$529,154) IN VARIOUS TAXES BY RECORDING IT IN THE NAMES OF KIM DOO SIK, CHO CHOONG HOON, KIM BONG HAK, AND STAFF MEMBERS OF THE COMPANY (ALL OF THE FOREGOING ARE FROM HAM KYUNG PROVINCE), ALTHOUGH HE RETAINED 90 PERCENT OWNERSHIP. MR. LEE IS ALSO ALLEGED TO HAVE USED \$321,000 IN INCOME EARNED IN JAPAN IN JANUARY, 1972, AND YEN 122 MILLION FROM INSURANCE REIMBURSEMENTS AND PAID NEW VESSEL INSURANCE OF YEN 31.63 MILLION AND TRANSFERRED \$7.6 MILLION AND YEN 470 MILLION TO MARUBENI, MITSUI, BANK OF TOKYO AND THE SUMITOMO BANK. THESE TRANSACTIONS TALLING YEN 1.2 BILLION AND \$7.921 MILLION WERE NOT REPORTED OR AUTHORIZED BY KEB AS REQUIRED BY LAW. SOME ACCOUNTS INCLUDED UNREPORTED INCOME DIVERSION OF \$159,000 FROM KWANGMYONG'S AMERICAN BRANCH AND \$515,463 BY KOREA WONYANG'S U.S. BRANCH. UNNAMED COMMENTATORS HAVE REPORTEDLY CONCLUDED THAT LEE'S INVESTIGATION AND ARREST INDICATES THE "PRESIDENT PARK'S SUPPORT (OF LEE) HAS BEEN CUT OFF." END UNCLASSIFIED.

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3. MR. LEE'S AIDE AT KOREA WONYANG INFORMED EMBOFF THAT KOREA WONYANG'S OPERATIONS UNDER DIRECTION BY THE CHOHEUNG BANK WILL NOT BE AFFECTED BY THE ARREST. HE OBSERVED THAT LEE'S DEFENSE WILL BE THAT IT IS VIRTUALLY IMPOSSIBLE FOR FISHING FIRMS, BECAUSE OF THE TIMING AND LOCATION OF THEIR DEALINGS, TO AVOID VIOLATING TIGHT ROK FOREIGN EXCHANGE LAW REQUIREMENTS IN THE COURSE OF THEIR ACTIVITIES. HE WILL PLEAD THAT WHATEVER HE DID WAS FOR THE GOOD OF KOREA WONYANG AND ITS EMPLOYEES AND NOT FOR HIS PERSONAL GAIN. HE EXPRESSED BELIEF THAT LEE COULD BE RELEASED ON BAIL IN ABOUT ONE MONTH AFTER THE INITIAL 20 DAY PERIOD OF INTERROGATION FOLLOWED BY SUBMISSION TO THE COURT AND SELECTION OF THE PRESIDING JUDGE. HE OBSERVED THAT THE CHARGES HAD BEEN MADE TO LEE WITHOUT ANY AMOUNTS BEING MENTIONED.

4. LEE'S IMPENDING FALL FROM POLITICAL GRACE HAS BEEN APPARENT FOR THE PAST FEW MONTHS DURING WHICH HE HAS BEEN UNDER INVESTIGATION BY THE NATIONAL TAX ADMINISTRATION (NTA). LEE IS KNOWN TO BE AN ASSOCIATE AND SUPPORTER OF DEPOSED FORMER YUJONG HOE ASSEMBLY CONFIDENTIAL

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MEMBER KANG MUNPONG (REFTELS) AND OTHERS FROM HAM KYUNG PROVINCE EARLIER SUSPECTED OF CONSPIRING TO PROMOTE THE ELECTION OF ONE OF THEIR FELLOW PROVINCIALS, ASSEMBLY SPEAKER CHONG IL-KWON, INTO THE PRESIDENCY. LEE HAD ENJOYED PUBLICLY RECOGNIZED PRESIDENTIAL FAVORS AND A LARGE SHARE OF GOVERNMENT PRINTING CONTRACTS BECAUSE OF HIS ROLE IN SECRETLY PRINTING DOCUMENTS FOR USE BY THE JUNTA IN THE COUP OF 1961. HIS NTA INVESTIGATION AND ARREST IS UNIVERSALLY INTERPRETED AS A POLITICAL ACTION.

5. STORIES EMANATING FROM THE MINISTRY OF FINANCE SUGGEST BELIEF THAT PRESIDENT PARK ORDERED THE NTA INVESTIGATION AFTER LEARNING THAT THE GATE TO LEE'S MANSION OVERLOOKING THE HAN RIVER COST \$100,000.

TRADITIONAL KOREAN MORES HOLD THAT MEN OF SUCCESS, POWER, AND WEALTH SHOULD FORESWEAR OSTENTATION AND PARTICULARLY THAT THE GATE TO THEIR HOMES SHOULD CONVEY A SUITABLE DEGREE OF MODESTY AND ESTHETIC RATHER THAN MATERIAL TASTES. FINANCE OFFICIALS WERE ALLEGEDLY SEEKING TO STRIP LEE OF EVERYTHING BUT HIS PRINTING BUSINESS WHICH IS THE SOLE PART OF HIS EMPIRE WHICH HAS BEEN OPERATING PROFITABLY. THEY HAVE ALREADY MOVED BY AUTHORIZING MR. CHANG, IK-YONG, PRESIDENT OF THE JINRO (WHISKEY) COMPANY TO BUY UP LEE'S REMAINING (15 TO 25 PERCENT) INTEREST IN THE KOREA SHIPBUILDING CO., LTD., A JOINT VENTURE BY LEE WITH TWO JAPANESE FIRMS JUST COMPLETING A YARD FOR CONSTRUCTION OF MEDIUM SIZED SHIPS (65,000 DWT) AT JUKDO.

6. LEE'S ARREST AND RECORDS SEIZURES ALSO COMPLICATES SETTLEMENT OF THE CASE OF THE KWANG MYONG 21, ONE OF KOREA'S WONYANG'S VESSELS THAT HAS BEEN SEIZED FOR VIOLATION OF THE US/ROK FISHERY AGREEMENT AND FOR WHICH A \$450,000 OUT-OF-COURT SETTLEMENT HAS BEEN OFFERED BY THE FEDERAL PROSECUTOR'S OFFICE AT JUNEAU, BUT THE FIRM HAS NOT BEEN ABLE TO OBTAIN THE FUNDS FOR ITS RELEASE. EMBASSY IS NOT AWARE OF ANY ADDITIONAL INSTANCE WHERE US INTERESTS MIGHT BE AFFECTED BY LEE'S MISFORTUNE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DETENTION, BUSINESSMEN, ARRESTS, POLICE INVESTIGATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SEOUL09649
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760453-0124
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761262/aaaacbeo.tel
Line Count: 142
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 SEOUL 7760, 76 SEOUL 8587
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 27 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 MAY 2004 by ShawDG>; APPROVED <27 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ARREST OF LEE HAK SOO, PRESIDENT OF KOREA WONYANG AND OTHER COMPANIES
TAGS: PGOV, PFOR, EFIS, ETRD, PINT, PINS, KS, (LEE HAK SOO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006